

## Message Text

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TO AMEMBASSY JAKARTA

AMCONSUL HONG KONG

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FOLLOWING REPEAT SEOUL 5704 ACTION SECSTATE INFO DACCA CANBERRA  
COLOMBO ISLAMABAD KABUL KATHMANDU KUALA LUMPUR MANILA NEW DELHI  
PORT MORESBY RANGOON SINGAPORE SUVA TAIPEI TOKYO VIENTIANE  
WELLINGTON JUNE 30

QUOTE LIMITED OFFICIAL USE SEOUL 5704

MANILA FOR USADB

E.O. 11652: N/A

TAGS: EGEN, ETRD, BEXP, BENC, KS

SUBJECT: U.S. PROCURMENT FROM ASIAN DEVELOPMENT BANK

REF: A) STATE 155300; B) STATE 159654; C) SEOUL 5078 (NOTAL);  
D) SEOUL 5278 (NOTAL); E) SEOUL 2024 (NOTAL); F) SEOUL 2345  
(NOTAL); G) SEOUL 3390

SUMMARY: REFTTEL A) REQUESTS INFORMATION AND COMMENT ON  
IMPROVING THE RATE OF U.S. SALES CONNECTED WITH ADB FINANCED  
PROJECTS. EMBASSY PERCEIVES JAPANESE COMMERCIAL DOMINANCE AND  
PROXIMITY TO KOREA (AND DUMPING PRICES) AS WELL AS  
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INADEQUATE SENSITIVITY AND EFFORT BY U.S. FIRMS TO EXPLOIT  
ADB FUNDED PROCUREMENT AS PRINCIPAL PROBLEMS. SUGGESTIONS ON  
REMEDIES ARE ANALOGOUS TO THOSE RECENTLY OFFERED TO INTER-  
AGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY.  
END SUMMARY.

1. DEPARTMENT'S OBSERVATION THAT U.S. CONSULTING ENGINEERS

ARE VERY COMPETITIVE IN SELLING SERVICES ON ADB PROJECTS IS BORNE OUT BY KOREAN EXPERIENCE. OF THE NINE MOST RECENT ADB LOAN PROJECTS SINCE 1974 WHICH REQUIRED ENGINEERING SERVICES, FOUR WERE PROVIDED BY U.S. FIRMS, TWO WERE BY JAPANESE AND ONE EACH WERE BY KOREAN, UK AND GERMAN FIRMS. DATES OF INITIAL EMBASSY ALERT REPORTS ON THOSE PROJECTS RANGED BETWEEN FOUR MONTHS TO ONE YEAR AND TEN MONTHS IN ADVANCE OF THE LOAN APPROVAL DATES. BOTH HEADQUARTERS AND REGIONAL OFFICES OF MAJOR U.S. ENGINEERING FIRMS SCHEDULE PERIODIC VISITS AND MAINTAIN CLOSE CABLE AND TELEPHONE CONTACT WITH US CONCERNING PROJECTS IN KOREA AS WELL AS ROK OVERSEAS CONSTRUCTION ACTIVITIES. ALL SUCH FIRMS TAKE ADVANTAGE OF COMMERCE MEPS SERVICES.

2. ADB LOANS PROCUREMENT HAS BEEN HANDLED THROUGH THREE PRINCIPAL CHANNELS, THE OFFICE OF SUPPLY REPUBLIC OF KOREA (OSROK), THE KOREA DEVELOPMENT BANK (KDB) AND THE MEDIUM INDUSTRY BANK (MIB). THE TWO BANKS HAVE RECEIVED ADB FUNDS FOR RELENDING IN A MANNER SIMILAR TO U.S. EXIMBANK'S C.F.F. PROGRAM WITH THE KOREA EXCHANGE BANK (KEB).

3. OSROK OFFICIALS NOTE THAT IN 1977 THEY PURCHASED \$10.6 MILLION WITH ADB FUNDS OF WHICH THEY ESTIMATE 18 PERCENT (\$1.89 MILLION) WAS FROM U.S. SUPPLIERS. THE SAME FIGURES FOR IBRD LOANS WERE \$33.9 MILLION OF WHICH 25 PERCENT (\$8.47 MILLION) WAS FROM U.S. SUPPLIERS. ADB OFFICIALS WERE ABLE TO PROVIDE FIRM FIGURES FOR 1976 OF \$30 MILLION IN ADB RELENDING LIMITED OFFICIAL USE

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OF WHICH 6 PERCENT (\$1.8 MILLION) WAS USED FOR IMPORTS FROM THE U.S. KDB'S \$60 MILLION IN IBRD FUNDS YIELDED 11 PERCENT (\$6.6 MILLION) IN PURCHASES FROM THE U.S. MIB ESTIMATES THAT "LESS THAN 10 PERCENT" (BELOW \$3 MILLION) OF ITS \$30 MILLION LENDING OF ADB FUNDS IN 1977 WAS USED FOR U.S. PURCHASES, COMPARED TO "LESS THAN 20 PERCENT" (BELOW \$6 MILLION) OF THE SAME AMOUNT OF 1976 IBRD FUNDS.

4. DEFINITE PATTERNS ATTEND THE PROCUREMENT OF THE THREE INSTITUTIONS. OSROK TENDERS ARE AVAILABLE IN KOREA AND IN THE U.S. WHERE INTERESTED FIRMS CAN HAVE FROM 30 TO 40 DAYS TO PREPARE BIDS. HENCE, THE PROPORTION OF OSROK'S ADB PURCHASING FROM THE U.S. IS HIGHER THAN THE OVERALL ADB AVERAGE. KDB FUNDING OF IMPORTS IS GENERALLY THROUGH MEDIUM TO LARGE ROK FIRMS WHICH PRESUMABLY ARE INFORMED ON THE PRICES AND SPECIFICATIONS OF FOREIGN EQUIPMENT AVAILABLE TO THEM. HOWEVER, PROXIMITY TO JAPAN AND THE THOROUGH PROMOTIONAL EFFORTS OF THE LARGE JAPANESE TRADING FIRMS REPRESENTED HERE HAVE ESTABLISHED STRONG PROCLIVITY TOWARD JAPANESE SOURCING OF CAPITAL EQUIPMENT IMPORTS. RECENT ROKG PROGRAMS TO DIVERSIFY IMPORTS TOWARD THE U.S. AND EUROPE CAN BE EXPECTED TO ERODE JAPAN'S STRONG POSITION IN THIS MARKET. MIB CLIENTS ARE SMALL FIRMS WHICH

TEND TO BE FAMILIAR ONLY WITH JAPANESE MACHINERY AND WHICH  
BASE EQUIPMENT PURCHASE DECISIONS ON PRICE, PROMPT DELIVERY  
AND RAPID ACCESS TO SPARE PARTS. FREQUENTLY DECISION MAKERS  
IN SUCH FIRMS SPEAK JAPANESE (BUT NO ENGLISH) AND FEEL AT  
EASE WITH PROMOTIONAL LITERATURE AND EQUIPMENT MANUALS WRITTEN  
IN JAPANESE.

5. IMPORTANT ELEMENT IN CHOICE OF SOURCES WHICH IS A MATTER  
OF CONCERN IS JAPANESE "ONE-SHOT" DUMPING. REF. (D) CONTAINS  
REFERENCE TO A JAPANESE BID OF \$12 MILLION ON TURBINE GENERATORS  
ON WHICH THE NEXT LOWEST BIDDER, A U.S. FIRM, QUOTES \$22  
MILLION AND FOR WHICH THE MANUFACTURING COSTS IN JAPAN WOULD  
BE AT LEAST \$12 MILLION. IN A RECENT OSROK BID FOR TEN DONKEY  
MINING LOCOMOTIVES TO BE FUNDED FROM ADB'S COA DEVELOPMENT  
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LOAN, U.S. BID WAS SECOND BEST AT ABOUT \$1.2 MILLION, WHILE  
A JAPANESE FIRM TOOK IT WITH AN OFFER OF \$500,000. THE ROK  
AND ROC ALSO ARE TROUBLED BY SUCH ACTIVITIES. LAST YEAR A  
BID WAS WON BY A JAPANESE FIRM WHICH QUOTED \$12 MILLION TO THE  
PORTLAND, OREGON PORT AUTHORITY FOR A FLOATING DOCK (ANOTHER  
JAPANESE BID WAS \$22 MILLION) WHICH EFFICIENT KOREAN AND CHINESE PRO-  
DUCERS COULD NOT OFFER FOR LESS THAN \$23 MILLION. THERE  
APPEARS TO BE NO REMEDY TO THIS LATTER PROBLEM EXCEPT RECOVERY  
OF JAPANESE INDUSTRY TO THE POINT WHERE DUMPING BECOMES  
UNREASONABLE.

6. OTHER ELEMENTS ENTER INTO SOURCING CHOICES, FOR EXAMPLE  
REFTEL (E) AND (F) REPORT AN INSTANCE OF JAPANESE "LOW-BALLING"  
AND AN INSTANCE OF ADB STAFF INFLUENCE ON SELECTION OF FIRMS  
TO BE SHORT-LISTED. BOTH PROJECTS WERE SUCCESSFULLY CAPTURED  
FOR U.S. FIRMS BY EMBASSY INTERVENTION. ALTHOUGH NOT REPEAT  
NOT ALL OF THE FOREGOING ILLUSTRATIONS ARE RELATED TO ADB  
SOURCED PROCUREMENT, THEY ARE ALL TOO COMMON EXAMPLES OF THE  
SHARP PRACTICES THAT HAVE COME TO OUR ATTENTION.

7. EMBASSY RECOMMENDATIONS, WHICH WE WOULD SUGGEST FOR CCP,  
(REFTEL B), FOR LOCAL AND WASHDC ACTION FOR IMPROVING PROCURE-  
MENT OPPORTUNITIES FOR U.S. FIRMS, DO NOT REPEAT NOT DRAMATICALLY  
DEPART FROM ONGOING PROGRAMS:

(A) EXPORT CONSCIOUSNESS OF U.S. INDUSTRY IS HISTORICALLY LOW.  
REFTEL G) RESPONDS TO INTERAGENCY TASK FORCE TO DEVELOP A  
NATIONAL EXPORT POLICY WITH SUGGESTIONS ON MEASURES TO DEAL

WITH THAT PROBLEM. IT IS CLEAR THAT IF U.S. CONSULTANTS AND  
ENGINEERS CAN SUCCESSFULLY IDENTIFY AND PURSUE ADB PROJECTS  
ON THE BASIS OF OUR EARLY WARNINGS, THEN INTERESTED EQUIPMENT  
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VENDORS CAN DO THE SAME. IT MAY BE THAT THE EXCELLENT INFORMATION SYSTEM OF MEPD SHOULD BE BROADENED TO INCLUDE MAJOR EQUIPMENT SUPPLIERS AS WELL AS ENGINEERING USERS. OSROK DISTRIBUTION IN THE U.S. OF ITS INVITATIONS TO BID FACILITIES THE ABILITY OF INTERESTED U.S. VENDORS TO PARTICIPATE IN THAT PORTION OF ADB GENERATED PROCUREMENT.

(B) WITH REGARD TO PROCUREMENT VIA KDB/MIB RELENDING PROGRAMS, THE ACTIVITIES OF U.S. TRADE CENTER, SEOUL, IN INTRODUCING NEW-TO-MARKET FIRMS THROUGH SHOWS, INCLUDING OUR TRAVELING CATALOGUE SHOWS, CAN BROADEN KOREAN KNOWLEDGE AND INTEREST IN U.S. EQUIPMENT. WE EXPECT TO BE AIDED IN THAT EFFORT BY STRONG ROKG EFFORTS TO REMEDY LARGE TRADE DEFICITS WITH JAPAN BY DIRECTING PURCHASING TOWARD THE U.S. AND EUROPE. NEITHER EMBASSY NOR KDB/MIB COULD PERCEIVE A PRACTICAL MEANS OF IDENTIFYING WHICH OF THOUSANDS OF ROK FIRMS MAY INTEND APPLY FOR SMALLER SCALE RELENDING FUNDS FOR CAPITAL EQUIPMENT IMPORTS. IN PRACTICE, APPLICANTS HAVE MADE THEIR CHOICES BEFORE THEY APPLY FOR LOANS. IN THAT PROCESS OF IMPORT SELECTION, KOREAN FIRMS OFTEN DISCOVER THAT U.S. FIRMS ARE NOT INTERESTED IN EXPORTING THE EQUIPMENT THEY DESIRE, SO THEY TURN TO JAPAN WHERE QUICKER DELIVERY AND SPARE PARTS SHIPMENTS CAN BE OBTAINED, RATHER THAN TO EUROPE. IN PRINCIPLE THE SMALLER THE APPLICANT FIRMS, THE MORE LIKELY THEIR MACHINERY IMPORTS HAVE BEEN FROM JAPAN. UNQUOTE VANCE

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